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SUBJECT: U/S SHEERAN HOLDS 6TH ROUND OF THE STATE-NDRC
DIALOGUE IN BEIJING WITH FOCUS ON RURAL DEVELOPMENT

REF: BEIJING 24338

SUMMARY

11. (SBU) Under Secretary of State for Economic, Energy, and Agricultural Affairs Josette Sheeran and the Vice Chairman of China's National Development Reform Commission (NDRC), Zhu Zhixin, co-chaired the sixth round of the State-NDRC Dialogue on December 17 in Beijing. Following on the heels of the Strategic Economic Dialogue on December 14-15, the State-NDRC Dialogue focused on rural development with Zhu emphasizing China's challenges to improving agricultural productivity, raising rural living standards, promoting coordinated urban-rural development, and protecting the environment. U/S Sheeran and Thomas Dorr, Under Secretary of Agriculture for Rural Development, highlighted lessons learned from the United States' experience in rural development, discussing strategies for raising rural incomes and promoting consumption. Site visits to two villages in Qinglong Township on the outskirts of Beijing Municipality illustrated the growing importance of non-farm income in China's countryside. At the same time, discussions and the site visits proved that the Central Government's New Socialist Countryside remains a top-down model with few opportunities for rural residents to explore private sector solutions for rural problems. END SUMMARY.

United States and China: Finding Common Ground

12. (SBU) U/S Sheeran stated that rural development is an urgent priority for both the United States and China, and the timing of the State-NDRC Dialogue was appropriate, following on the heels of the Strategic Economic Dialogue. With new technologies, energy alternatives, biofuels, and more opportunities to connect to rural areas via modern communication, there is a lot of potential for rapid growth in the rural sector. U/S Sheeran noted that 75 percent of the United States' land area is rural, and the pace of development in those areas is changing in today's globalized world. U/S Dorr echoed U/S Sheeran's sentiments, adding that the information technology revolution means that promoting development in rural

areas is not only linked to agricultural policy but to other sectors as well.

13. (SBU) Vice Chairman Zhu noted the fast pace of economic development in China since reform and opening in 1978 with the country more than tripling its grain production during that time while also reducing the number of people living in poverty by more than 225 million. Zhu cited several reasons for the rapid improvements in rural livelihoods, including economic reform implemented in rural areas, government investments in agriculture (including the recently launched New Socialist Countryside--see ref tel), the elimination of the agricultural tax, and the government's emphasis on resources and infrastructure such as water, electricity, gas, and roads.

The Challenges Ahead for China

14. (SBU) Zhu acknowledged, however, that China faces many challenges in the countryside, particularly because the country regularly experiences a five-year crop cycle of two good years, two average years, and one bad year (which may include natural disasters). According to Zhu, China needs to reach a point where it no longer "relies on heaven for food." He cited four major problems: (1) water shortages in rural areas, (2) the lack of agricultural technology, (3) lagging infrastructure, and (4) a growing rural-urban income disparity. On the last point, Zhu lamented that urban incomes now are three times greater than rural incomes on average, and that the gap has been growing since 1978. The Central Government must

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therefore facilitate the support of industrial and urbanized areas to the countryside, encourage urbanization, equalize public services, and promote technologies that meet the needs of China's citizens.

Evolving Views on Food Security

15. (SBU) In response to U/S Sheeran's question about China's views on food security, Zhu said that China must maintain a higher grain reserve ratio than western countries for several reasons. China's susceptibility to natural disasters and the large number of people affected by those disasters requires more grain to be stored. Chinese people tend to eat different types of grain depending on their region of origin, so it would be difficult to reserve just one type of grain. In addition, a situation of food insecurity potentially would cause social instability, Zhu said. China's decisions on food security must balance wheat versus rice, production and consumption, and bumper harvests against bad years, he said.

China's View on Private Ownership of Land

16. (SBU) Zhu said there are various opinions on the utility of private ownership of land in China, but for now, land in urban areas continues to belong to the Central Government and land in rural areas is owned by village collectives. The Central Government does not plan to transition towards private ownership in the near future. Zhu stated, however, that an evolving country will need to change in many respects, and land policy is no exception. U/S Sheeran and U/S Dorr emphasized the importance of private ownership of land in the United States' rural development experience, particularly with respect to building individuals' credit histories and attracting private financing for development projects.

High-Tech Solutions to Rural Problems?

¶7. (SBU) Vice Chairman Zhu said there is no doubt that technology can help China's rural development. China needs to achieve a higher yield from its land in order to take more land out of agriculture even as production needs increase. Zhu welcomed U/S Dorr's suggestion to increase the utilization of broadband in China's countryside, but he cautioned that China first must tackle infrastructure deficiencies such as lack of access to electricity, limited knowledge about how to use the technology, and few roads to transport agricultural products to market from remote areas.

The United States' Lessons for China

¶8. (SBU) U/S Sheeran and U/S Dorr presented lessons learned from the United States' own experience in rural development, including strategies for raising rural incomes and promoting consumption. During the past 50 years, the United States has changed dramatically, and today, more than 93 percent of rural Americans do not work in the agricultural sector. U/S Sheeran emphasized the United States' productivity revolution, crop diversification, risk mitigation and property insurance, globalization and open markets, and the social safety net as five pillars of the United States' approach to rural development. U/S Dorr added that the United States' experience proves that implementing centralized top-down directives is not necessarily the best strategy for promoting rural development. It is clear, however, that giving rural residents non-farm income opportunities, introducing technologies such as broadband, and facilitating the use of renewable energy offers substantive potential for wealth creation, U/S Dorr said. U/S Sheeran added that the key to the survival of farming communities is empowering farmers at the grass-roots level to respond to market mechanisms through networks.

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Visiting China's New Socialist Countryside

¶9. (SBU) Site visits to two villages in Qinglong Township on the outskirts of Beijing Municipality illustrated the growing importance of non-farm income in China's countryside. In Dayuan, a village of 1800 people growing grain and other traditional crops, villagers interviewed at both of the households visited by the delegation indicated that much of their income is derived from non-farm sources. One resident previously worked for a Chinese insurance company while another elderly resident depends on income from his son's work outside the village. In Miao Ergang, a model village project supported by the Central Government and Beijing Municipality Government, villagers reveled in their ability to treat water for use as irrigation, produce mushrooms for sale in Beijing, and use methane gas instead of coal for power. One village official acknowledged, however, that without private sector solutions, especially for financing, the Central Government's lack of resources will make it difficult to replicate the village's achievements in other parts of the country.

¶10. (SBU) Participants List:

China

Zhu Zhixin, Vice Chairman, NDRC

Shi Gang, Director General, Department of National Economy, NDRC
Chen Xuanqing, Deputy Director General, Department of Regional Economy, NDRC
Hu Hengyang, Deputy Director General, Department of Rural Economy, NDRC
Wu Yin, Deputy Director General, Department of Energy, NDRC
Li Guohua, Deputy Director General, Department of International Cooperation, NDRC
Zhu Baozhi, Deputy Director General, Department of Development Planning, NDRC
Li Hayian, Economic Minister Counselor, Chinese Embassy
Peng Fuwei, Secretary to Vice Chairman Zhu, NDRC

United States

Josette Sheeran, Under Secretary of State for Economic, Energy and Agricultural Affairs
Thomas Dorr, Under Secretary of Agriculture for Rural Development
Thomas Christensen, Deputy Assistant Secretary of State for East Asian and Pacific Affairs
Robert Luke, Minister Counselor for Economic Affairs
David Loevinger, Minister Counselor for Financial Affairs
David Meale, Chief of the Macroeconomic Unit
Peter Haymond, Division Chief, Economic Bureau
Matt Murray, Economic Officer
Jorge Sanchez, FAS Agriculture Attaché

¶11. (U) Under Secretary Sheeran cleared this cable.

RANDT